

**Audubon County Memorial Hospital**  
Audubon, Iowa

**Financial Statements**  
**June 30, 2011 and 2010**

**Together with Independent Auditor's Report**

# Audubon County Memorial Hospital

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## Audubon County Memorial Hospital

**Officials**  
**June 30, 2011**

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Name	Title	Term Expires
<b>Board of Trustees</b>		
Jay D. Mendenhall	Chairman	December 31, 2012
Daniel Smith	Vice Chairman	December 31, 2014
Wayne Hansen	Secretary	December 31, 2016
Paul Schultz, DDS	Treasurer	December 31, 2012
Mark Kessler	Member	December 31, 2016
Connie S. Faga	Member	December 31, 2014
Marlene Ballou	Member	December 31, 2012
<b>Hospital Officials</b>		
Tom Smith	CEO/Administrator	
Joan Fancher	Assistant Administrator	
Karen McGuire	Chief Financial Officer	



SEIM JOHNSON

## Independent Auditor's Report

To the Board of Trustees  
Audubon County Memorial Hospital  
Audubon, Iowa:

We have audited the accompanying basic financial statements of Audubon County Memorial Hospital (Hospital) as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Hospital for the year ended June 30, 2010, were audited by other auditors whose report, dated November 19, 2010, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2011, and the results of its operations, changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 6 and page 20 are not required parts of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole that collectively comprise the Hospital's basic financial statements. Other supplementary information, included in Exhibits 1 through 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Seim Johnson, LLP*

Omaha, Nebraska,  
October 26, 2011.

## **Audubon County Memorial Hospital**

### **Management's Discussion and Analysis June 30, 2011 and 2010**

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#### **Introduction**

This management's discussion and analysis of the financial performance of Audubon County Memorial Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Hospital.

#### **Financial Highlights**

- Total cash and cash equivalents increased between 2011 and 2010 by \$629,214 or 41% and decreased between 2010 and 2009 by \$85,722 or 5%.
- The Hospital's net assets increased \$549,741 or 3% in 2011 and increased \$592,575 or 4% in 2010.
- The Hospital reported an operating loss in 2011 of \$375,429 and operating loss in 2010 of \$221,874.
- Net nonoperating revenue increased by \$116,838 or 14% in 2011 compared to 2010 and decreased by \$169,424 or 17% in 2010 compared to 2009.

#### **Using This Annual Report**

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenue, expenses and changes in net assets; and a statement of cash flow. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

#### **The Balance Sheet and Statement of Revenue, Expenses and Changes in Net Assets**

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenue, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Hospital.

#### **The Statement of Cash Flows**

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

#### **The Hospital's Net Assets**

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$549,741 or 3% in 2011 over 2010 as shown in Table 1.

## Audubon County Memorial Hospital

### Management's Discussion and Analysis June 30, 2011 and 2010

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**Table 1: Assets, Liabilities and Net Assets**

	2011	2010	2009
<b>Assets</b>			
Patient accounts receivable, net	\$ 1,162,452	1,034,049	1,066,462
Other current assets	9,640,177	9,172,653	8,766,897
Capital assets, net	4,423,258	4,596,647	5,066,420
Other noncurrent assets	3,894,760	3,635,227	3,096,168
Total assets	<u>\$ 19,120,647</u>	<u>18,438,576</u>	<u>17,995,947</u>
<b>Liabilities</b>			
Current liabilities	\$ 1,460,864	1,328,534	1,478,480
<b>Net Assets</b>			
Invested in capital assets, net of related debt	4,423,258	4,596,647	5,049,920
Restricted expendable	205,005	103,443	101,299
Restricted non expendable	10,000	10,000	10,000
Unrestricted	13,021,520	12,399,952	11,356,248
Total net assets	<u>17,659,783</u>	<u>17,110,042</u>	<u>16,517,467</u>
Total liabilities and net assets	<u>\$ 19,120,647</u>	<u>18,438,576</u>	<u>17,995,947</u>

In 2011, gross accounts receivable increased by \$158,915 from fiscal year 2010. Net days in accounts receivable increased from 42 in 2010 to 45 in 2011. Provision for bad debt decreased by \$16,246 and contractual adjustments increased by \$540,457. Charity care increased by \$38,015 over 2010.

Cash and general fund deposits for the Hospital increased by \$946,539. Board designated time certificate and savings increased by \$138,549. Interest earnings averaged 1.54% on general fund investments and 1.68% on plant fund investments. Marvin Jorgensen gave the Hospital a gift of \$100,000 with the intention of recruiting a Mayo Clinic trained doctor. Due to the lack success in recruiting such doctor this gift was invested as a restricted fund until at a further time determination is made for the funds.

Capital assets increased by \$49,735 between year 2010 and 2011. Accumulated depreciation increased by \$223,124 for a net decrease in capital assets of \$173,389.

In 2010, gross accounts receivable decreased by \$5,702 from fiscal year 2009. Allowance for bad debt decreased by \$30,380 and contractual adjustments, excluding charity care, decreased by \$778,042. Charity care decreased by \$31,500 over 2009.

Cash and general fund deposits for the Hospital decreased by \$166,143. Board-designated time certificates and saving increased by \$523,770. Interest earnings averaged 2.31% on general fund investments and 2.33% on plant fund investments.

Capital assets increased by \$128,455 between year 2009 and 2010. Accumulated depreciation increased by \$598,288 for a net decrease in capital assets of \$469,773.

## Audubon County Memorial Hospital

### Management's Discussion and Analysis June 30, 2011 and 2010

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#### Operating Results and Changes in the Hospital's Net Assets

In 2011, the Hospital's net assets increased by \$549,741 or 3% as shown in Table 2. This increase is made up of several different components.

**Table 2: Operating Results and Changes in Net Assets**

	2011	2010	2009
<b>Operating Revenue</b>			
Net patient service revenue	9,090,255	8,704,880	8,363,383
Other operating revenue	107,663	132,028	115,931
Total operating revenue	9,197,918	8,837,432	8,479,314
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	5,086,403	4,778,034	4,389,991
Depreciation and amortization	829,990	827,390	837,950
Other operating expenses	3,656,954	3,453,882	3,675,993
Total operating expenses	9,573,347	9,059,306	8,903,934
<b>Operating Loss</b>	(375,429)	(221,874)	(424,620)
<b>Nonoperating Revenue</b>			
Property taxes	581,722	511,099	494,055
Interest income	162,666	215,151	296,230
Non-capital gifts	178,635	79,935	185,324
Total nonoperating revenue	923,023	806,185	975,609
<b>Excess of Revenue Over Expenses Before Capital Grants and Contributions</b>	547,594	584,311	550,989
<b>Capital Grants and Contributions</b>	2,147	8,264	8,484
<b>Increase in Net Assets</b>	<b>\$ 549,741</b>	<b>592,575</b>	<b>559,473</b>

#### Operating Income (Loss)

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service revenue and other operating revenue and the expenses incurred to perform those services. In 2011, 2010 and 2009, the Hospital reported an operating loss. The Hospital was formed and is operated primarily to serve residents of Audubon County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

In 2011, the following changes were noted:

- Inpatient revenue increased by \$32,613 in 2011, acute inpatient days increased by 73 days with an average length of stay of 3.4 days, swing-bed days decreased by 57 days. The Hospital had an overall increase in patient charges for fiscal year 2011 of 7%.
- Outpatient revenue increased by \$917,492.
- In 2011, overall, net patient service revenue increased by \$384,851 or 4% from fiscal year 2010.
- Operating expenses increased by \$514,041.

## **Audubon County Memorial Hospital**

### **Management's Discussion and Analysis June 30, 2011 and 2010**

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In 2010, the following changes were noted:

- Inpatient revenue decreased by \$96,847 in 2010, acute inpatient days decreased by 129 days with an average length of stay of 3.1 days, swing-bed days decreased by 24 days. The Hospital had an overall increase in patient charges for fiscal year 2010 of 5%.
- Outpatient revenue decreased by \$338,578.
- In 2010, overall, net patient service revenue increased by \$341,497 or 4.1% from fiscal year 2009
- Operating expenses increased by \$155,372.

#### **Nonoperating Revenue and Expenses**

Nonoperating revenue consist primarily of property taxes levied by the Hospital, investment income and noncapital gifts, all of which increased by \$116,838 or 14% from 2010 to 2011 and decreased by \$169,424 or 17% from 2010 to 2009. Investment income decreased in 2011 and 2010 by \$52,485 and \$81,079, respectively due to significantly lower interest rates.

Gifts for capital and noncapital items received in fiscal year 2011 increased by \$98,700. Grants and gifts for capital and non-capital items received in fiscal year 2010 decreased by \$105,389.

#### **Contributions**

The Hospital received contributions of \$100,000 for physician recruitment in 2011.

#### **The Hospital's Cash Flows**

Changes in the Hospital's cash flows are consistent with changes in the operating income and nonoperating revenue in 2011, 2010 and 2009, discussed earlier.

#### **Capital Asset and Debt Administration**

##### **Capital Assets**

At the end of 2011, the Hospital had \$4.4 million invested in capital assets, net of accumulated depreciation. At the end of 2010, the Hospital had \$4.6 million invested in capital assets, net of accumulated depreciation.

##### **Debt**

The Hospital had no debt at the end of fiscal year 2011.

#### **Contacting the Hospital's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 712.563.2611.



# Audubon County Memorial Hospital

## Balance Sheets June 30, 2011 and 2010

	2011	2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,180,768	1,551,554
Short-term investments	6,325,226	6,282,228
Receivables -		
Patients, net of estimated uncollectible accounts		
of \$217,309 in 2011 and \$240,000 in 2010	1,162,452	1,034,049
Property taxes	605,922	581,771
Other	28,366	13,969
Inventories	300,317	287,899
Prepaid expenses	199,578	90,232
Estimated third-party payor settlements	--	365,000
Total current assets	10,802,629	10,206,702
Assets limited as to use or restricted:		
Designated by Board of Trustees	3,679,755	3,521,784
Restricted by donors for -		
Scholarships	13	20
Physician recruitment	204,992	103,423
Endowment	10,000	10,000
Total assets limited as to use or restricted	3,894,760	3,635,227
Capital assets, net	4,423,258	4,596,647
Total assets	\$ 19,120,647	18,438,576
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 303,024	338,208
Accrued salaries, vacation and benefits payable	452,753	408,555
Estimated third-party payor settlements	99,165	--
Deferred revenue for property taxes	605,922	581,771
Total current liabilities	1,460,864	1,328,534
Net assets:		
Invested in capital assets, net of related debt	4,423,258	4,596,647
Restricted -		
Expendable for scholarships	13	20
Expendable for physician recruitment	204,992	103,423
Nonexpendable endowment	10,000	10,000
Unrestricted	13,021,520	12,399,952
Total net assets	17,659,783	17,110,042
Total liabilities and net assets	\$ 19,120,647	18,438,576

See notes to financial statements

# Audubon County Memorial Hospital

## Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2011 and 2010

	2011	2010
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 9,357,040	8,988,435
Provision for bad debt	(266,785)	(283,031)
Net patient service revenue	9,090,255	8,705,404
Other operating revenue	107,663	132,028
Total operating revenue	9,197,918	8,837,432
EXPENSES:		
Salaries	3,727,136	3,469,006
Employee benefits	1,359,267	1,309,028
Professional fees and purchased services	1,076,816	959,066
Supplies and other	1,564,825	1,565,195
General services	314,086	284,568
Administrative services	636,142	579,594
Insurance	65,085	65,459
Depreciation and amortization	829,990	827,390
Total operating expenses	9,573,347	9,059,306
OPERATING LOSS	(375,429)	(221,874)
NONOPERATING REVENUE:		
Property taxes	581,722	511,099
Investment income	162,666	215,151
Noncapital grants and contributions	178,635	79,935
Nonoperating revenue	923,023	806,185
EXCESS REVENUE OVER EXPENSES BEFORE GRANTS AND CONTRIBUTIONS	547,594	584,311
GRANTS AND CONTRIBUTIONS	2,147	8,264
INCREASE IN NET ASSETS	549,741	592,575
NET ASSETS, Beginning of year	17,110,042	16,517,467
NET ASSETS, End of year	\$ 17,659,783	17,110,042

See notes to financial statements

## Audubon County Memorial Hospital

### Statements of Cash Flows For the Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 9,426,017	8,200,817
Cash paid to employees	(5,042,205)	(4,792,932)
Cash paid to suppliers and contractors	(3,813,902)	(3,474,942)
Other receipts and payments, net	108,898	139,401
Net cash provided by operating activities	678,808	72,344
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants and contributions	178,635	79,935
County tax receipts	581,722	511,099
Net cash provided by noncapital financing activities	760,357	591,034
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment	(672,233)	(364,629)
Principal payments on long-term debt	--	(16,500)
Capital grants and contributions	2,147	8,264
Net cash used in capital and related financing activities	(670,086)	(372,865)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments and assets limited as to use or restricted	(302,531)	(591,386)
Investment income	162,666	215,151
Net cash used in investing activities	(139,865)	(376,235)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	629,214	(85,722)
CASH AND CASH EQUIVALENTS, Beginning of year	1,551,554	1,637,276
CASH AND CASH EQUIVALENTS, End of year	\$ 2,180,768	1,551,554

*See notes to financial statements*

# Audubon County Memorial Hospital

## Statements of Cash Flows (Continued) For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (375,429)	(221,874)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	829,990	827,390
Loss on sale of capital assets	15,632	7,012
(Increase) decrease in current assets -		
Receivables -		
Patients	(128,403)	32,413
Property taxes	(24,151)	(67,430)
Other	(14,397)	361
Inventories	(12,418)	(10,700)
Prepaid expenses	(109,346)	3,618
Estimated third-party payor settlements	365,000	(365,000)
Increase (decrease) in current liabilities -		
Accounts payable	(35,184)	(13,978)
Accrued salaries, vacation and benefits payable	44,198	(14,898)
Estimated third-party payor settlements	99,165	(172,000)
Deferred revenue for property taxes	24,151	67,430
Net cash provided by operating activities	\$ <u>678,808</u>	<u>72,344</u>

*See notes to financial statements*

# Audubon County Memorial Hospital

## Notes to Financial Statements June 30, 2011 and 2010

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### (1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following is a description of the reporting entity and a summary of significant accounting policies of Audubon County Memorial Hospital (Hospital). These policies are in accordance with U.S. generally accepted accounting principles.

#### A. *Reporting Entity*

The Hospital is a county public hospital organized under Chapter 347 of the Code of Iowa, governed by a seven-member Board of Trustees. The Hospital and Audubon County Hospital Foundation (Foundation) are collectively referred to here as the Hospital. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Audubon County area and the surrounding area in South Central Iowa. The Foundation is organized under Chapter 504A of the Code of Iowa.

As required by accounting principles generally accepted in the United States of America, these financial statements present the Hospital and its component unit, an entity for which the Hospital is considered to be closely related. The Foundation's objectives are to "promote the best interest of the Audubon County Memorial Hospital and to promote and strive for improvement and betterment of said facilities and services." It is organized primarily to hold certain assets for and benefit the Hospital

The Foundation is combined with data of the Hospital for financial reporting purposes using the blending method. The Foundation is a legally separate corporation that is, in substance, a part of the Hospital's operations. Transactions between the Hospital and the Foundation are eliminated in preparation of the financial statements.

#### B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

#### C. *Basis of Presentation*

The Balance Sheets display the Hospital's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

## Audubon County Memorial Hospital

### Notes to Financial Statements June 30, 2011 and 2010

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Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets:

Nonexpendable – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

Expendable – Expendable net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

*D. Measurement Focus and Basis of Accounting*

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activities, the Hospital applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

*E. Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

*F. Cash and Cash Equivalents*

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by the Board of Trustees and donors.

*G. Patient Receivables, Net*

Net patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not assessed interest. Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

## Audubon County Memorial Hospital

### Notes to Financial Statements June 30, 2011 and 2010

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The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

#### *H. Property Tax Receivable*

For the years ended June 30, 2011 and 2010, the Hospital received approximately 6% and 5%, respectively, of its financial support from property tax revenue, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

#### *I. Inventories*

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

#### *J. Assets Limited as to Use or Restricted*

Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements. The Board retains control over these assets and may, at its discretion, subsequently use them for other purposes. Donor restricted funds are maintained by the Hospital according to the terms specified by the donor.

#### *K. Investments*

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in non-negotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices. Investment income includes interest income and increases in fair value of investments.

#### *L. Capital Assets*

Capital asset acquisitions are capitalized and recorded at cost. Depreciation is provided over the estimated life of each depreciable asset and is computed using the straight-line method. Contributed capital assets are reported at their estimated fair value at the time of their donation. Equipment under capital leases are depreciated over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

## Audubon County Memorial Hospital

### Notes to Financial Statements

June 30, 2011 and 2010

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Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	10 – 40 years
Buildings, improvements and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years

*M. Compensated Absences*

Hospital policies permit most employees to accumulate vacation benefits that may be realized as paid time off. Expense and the related liability are recognized as benefits are earned. Compensation absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

*N. Income Taxes*

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

*O. Statements of Revenue, Expenses and Changes in Net Assets*

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and expenses.

*P. Net Patient Service Revenue*

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

*Q. Grants and Contributions*

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or restricted for a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.



## Audubon County Memorial Hospital

### Notes to Financial Statements June 30, 2011 and 2010

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R. *Charity Care*

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue at the time of the charity determination.

S. *Risk Management*

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

T. *Management*

The Hospital is a provider of healthcare services as a Critical Access Hospital. During the year, the Hospital had an agreement for management services with Mercy Medical Center-Des Moines. Administration and support services fees of \$265,073 and \$265,130 were incurred for the years ended June 30, 2011 and 2010, respectively.

U. *Reclassification*

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 reporting format.

V. *Subsequent Events*

The Hospital considered events occurring through October 26, 2011 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) **Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

**Medicare.** Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Outpatient services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audit thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2010.

**Medicaid.** Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers. This basis for payment to the Hospital under these agreements includes discounts from established charges and prospectively determined rates.

## Audubon County Memorial Hospital

### Notes to Financial Statements June 30, 2011 and 2010

The following illustrates the Hospital's patient service revenue at its established rates and revenue deductions by major third-party payors:

	<u>2011</u>	<u>2010</u>
Gross patient service revenue:		
Inpatient services and swing bed	\$ 1,444,923	1,415,344
Outpatient	9,705,712	8,930,430
Clinic	<u>464,462</u>	<u>322,252</u>
Total gross patient service revenue	<u>11,615,097</u>	<u>10,668,026</u>
Deductions from patient service revenue:		
Medicare	1,225,021	980,198
Medicaid	191,498	59,983
Other payors	781,055	616,942
Charity care	<u>60,483</u>	<u>22,468</u>
Total deductions from patient service revenue	<u>2,258,057</u>	<u>1,679,591</u>
Net patient service revenue before provision for bad debt	<u>\$ 9,357,040</u>	<u>8,988,435</u>

The Hospital reports net patient service revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounts for approximately 59% and 5%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2011 compared to 55% for Medicare and 4% for Medicaid in 2010. The Hospital grants credit without collateral to their patients, most of who are local residents and are insured under third-party payor agreements. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

#### (3) Deposits and Investments

The Hospital's deposits in banks at June 30, 2011 and 2010 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

## Audubon County Memorial Hospital

### Notes to Financial Statements June 30, 2011 and 2010

The Hospital's investments at June 30, 2011 and 2010 consisted of money market mutual funds as follows:

	<u>2011</u>	<u>2010</u>
Money market mutual funds – Foundation	\$ 5,791	11,350
Mutual funds – Foundation	<u>127,129</u>	<u>102,148</u>
	<u>\$ 132,920</u>	<u>113,498</u>

The composition of investments and assets limited as to use or restricted as of June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Short-term investments, Certificates of deposit	\$ <u>6,325,226</u>	<u>6,282,228</u>
Assets limited as to use or restricted:		
Internally designated –		
Cash and cash equivalents	\$ 453,453	859,592
Certificates of deposit	3,308,387	2,662,137
Money market mutual funds	5,791	11,350
Mutual funds	<u>127,129</u>	<u>102,148</u>
	<u>\$ 3,894,760</u>	<u>3,635,227</u>

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2011 and 2010 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 147,045	206,178
Net increase in fair value of investments	<u>15,621</u>	<u>8,972</u>
Total investment return	<u>\$ 162,666</u>	<u>215,150</u>

#### (4) Composition of Patient Receivables

Patient receivables as of June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Patient accounts	\$ 1,626,585	1,467,670
Less estimated third-party contractual adjustments	(246,824)	(193,621)
Less allowance for doubtful accounts	<u>(217,309)</u>	<u>(240,000)</u>
	<u>\$ 1,162,452</u>	<u>1,034,049</u>

## Audubon County Memorial Hospital

### Notes to Financial Statements June 30, 2011 and 2010

The Hospital is located in Audubon, Iowa. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	2011	2010
Medicare	51%	40%
Medicaid	4	3
Commercial	28	34
Private pay	17	23
	<u>100%</u>	<u>100%</u>

#### (5) Capital Assets

Capital assets activity for the years ended June 30, 2011 and 2010 were as follows:

	June 30, 2010	Additions	Transfers and Disposals	June 30, 2011
Capital assets, not being depreciated:				
Land	\$ 68,389	--	--	68,389
Construction in progress	41,929	479,041	(506,675)	14,295
Total capital assets, not being depreciated	<u>110,318</u>	<u>479,041</u>	<u>(506,675)</u>	<u>82,684</u>
Capital assets, being depreciated:				
Land improvements	423,029	--	--	423,029
Hospital buildings	7,479,044	39,469	(18,106)	7,500,407
Fixed equipment	676,133	--	--	676,133
Major moveable equipment	4,098,739	154,670	(98,664)	4,154,745
Total capital assets, being depreciated	<u>12,676,945</u>	<u>194,139</u>	<u>(116,770)</u>	<u>12,754,314</u>
Less accumulated depreciation:				
Land improvements	301,854	22,193	--	324,047
Hospital buildings	4,387,394	380,463	(18,106)	4,749,751
Fixed equipment	526,028	21,757	--	547,785
Major moveable equipment	2,975,340	405,577	(588,760)	2,792,157
Total accumulated depreciation	<u>8,190,616</u>	<u>829,990</u>	<u>(606,866)</u>	<u>8,413,740</u>
Total capital assets, being depreciated, net	<u>4,486,329</u>	<u>(635,851)</u>	<u>490,096</u>	<u>4,340,574</u>
Total capital assets, net	<u>\$ 4,596,647</u>	<u>(156,810)</u>	<u>(16,579)</u>	<u>4,423,258</u>

## Audubon County Memorial Hospital

### Notes to Financial Statements June 30, 2011 and 2010

	June 30, 2009	Additions	Transfers and Disposals	June 30, 2010
Capital assets, not being depreciated:				
Land	\$ 68,389	--	--	68,389
Construction in progress	7,853	34,076	--	41,929
Total capital assets, not being depreciated	76,242	34,076	--	110,318
Capital assets, being depreciated:				
Land improvements	423,029	--	--	423,029
Hospital buildings	7,473,650	11,272	5,878	7,479,044
Fixed equipment	678,527	--	2,394	676,133
Major moveable equipment	4,007,360	320,541	229,162	4,098,739
Total capital assets, being depreciated	12,582,566	331,813	237,434	12,676,945
Less accumulated depreciation:				
Land improvements	279,547	22,307	--	301,854
Hospital buildings	4,013,035	380,237	5,878	4,387,394
Fixed equipment	506,057	22,365	2,394	526,028
Major moveable equipment	2,793,749	402,481	220,890	2,975,340
Total accumulated depreciation	7,592,388	827,390	229,162	8,190,616
Total capital assets, being depreciated, net	4,990,178	(495,577)	8,272	4,486,329
Total capital assets, net	\$ 5,066,420	(461,501)	8,272	4,596,647

#### (6) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$1,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. The Hospital is not aware of any known claims or incidents that may be asserted from services to patients. Based upon the Hospital's claims experience, no such accrual has been made.

#### (7) Pension Plan

The Hospital contributes to the Iowa Public Employees' Retirement System (IPERS), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. IPERS provides retirement and death benefits, which are established by state statute, to plan members and their beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.50% and 4.30% of their annual covered salary and the Hospital is required to contribute 6.95% and 6.65% of annual covered payroll for 2011 and 2010, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009, were \$257,145, \$229,599 and \$207,820, respectively, which equaled the required contributions for each year.

## Audubon County Memorial Hospital

### Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets – Budget and Actual (Accrual Basis) June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the accrual basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2011, the Hospital's expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 581,722	--	581,722	562,638	19,084
Add: Other revenues / receipts	9,527,729	350,634	9,878,363	8,660,074	1,218,289
Less: Expenses / disbursements	<u>9,527,808</u>	<u>(31,359)</u>	<u>9,496,449</u>	<u>10,722,879</u>	<u>1,226,430</u>
Net	581,643	381,993	963,636	(1,500,167)	<u>2,463,803</u>
Balance beginning of year	<u>16,793,105</u>	<u>(5,641,259)</u>	<u>11,151,846</u>	<u>10,183,059</u>	
Balance end of year	\$ <u>17,374,748</u>	<u>(5,259,266)</u>	<u>12,115,482</u>	<u>8,682,892</u>	

# Audubon County Memorial Hospital

Exhibit 1

## Combining Balance Sheet June 30, 2011

	Audubon County Memorial Hospital	Audubon County Hospital Foundation	Eliminations	Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 2,079,380	101,388	--	2,180,768
Short-term investments	6,274,262	50,964	--	6,325,226
Receivables -				
Patients, net of estimated uncollectible accounts of \$217,309 in 2011	1,162,452	--	--	1,162,452
Property taxes	605,922	--	--	605,922
Other	28,366	--	--	28,366
Inventories	300,317	--	--	300,317
Prepaid expenses	199,578	--	--	199,578
Total current assets	<u>10,650,277</u>	<u>152,352</u>	<u>--</u>	<u>10,802,629</u>
Assets limited as to use or restricted:				
Designated by Board of Trustees	3,546,835	132,920	--	3,679,755
Restricted by donors for -				
Scholarships	13	--	--	13
Physician recruitment	204,992	--	--	204,992
Endowment	10,000	--	--	10,000
Total assets limited as to use or restricted	<u>3,761,840</u>	<u>132,920</u>	<u>--</u>	<u>3,894,760</u>
Capital assets, net	<u>4,423,258</u>	<u>--</u>	<u>--</u>	<u>4,423,258</u>
Total assets	<u>\$ 18,835,375</u>	<u>285,272</u>	<u>--</u>	<u>19,120,647</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities:				
Accounts payable	\$ 303,024	--	--	303,024
Accrued salaries, vacation and benefits payable	452,516	237	--	452,753
Estimated third-party payor settlements	99,165	--	--	99,165
Deferred revenue for property taxes	605,922	--	--	605,922
Total current liabilities	<u>1,460,627</u>	<u>237</u>	<u>--</u>	<u>1,460,864</u>
Commitments and contingencies				
Net assets:				
Invested in capital assets, net of related debt	4,423,258	--	--	4,423,258
Restricted -				
Expendable for scholarships	13	--	--	13
Expendable for physician recruitment	204,992	--	--	204,992
Nonexpendable endowment	10,000	--	--	10,000
Unrestricted	<u>12,736,485</u>	<u>285,035</u>	<u>--</u>	<u>13,021,520</u>
Total net assets	<u>17,374,748</u>	<u>285,035</u>	<u>--</u>	<u>17,659,783</u>
Total liabilities and net assets	<u>\$ 18,835,375</u>	<u>285,272</u>	<u>--</u>	<u>19,120,647</u>

**Audubon County Memorial Hospital**
**Exhibit 2**
**Combining Statement of Revenue, Expenses, and Changes in Net Assets  
For the Year Ended June 30, 2011**

	<b>Audubon County Memorial Hospital</b>	<b>Audubon County Hospital Foundation</b>	<b>Eliminations</b>	<b>Total</b>
<b>OPERATING REVENUE:</b>				
Net patient service revenue before provision for bad debt	\$ 9,357,040	--	--	9,357,040
Provision for bad debt	(266,785)	--	--	(266,785)
Net patient service revenue	9,090,255	--	--	9,090,255
Other operating revenue	107,663	--	--	107,663
Total operating revenue	9,197,918	--	--	9,197,918
<b>EXPENSES:</b>				
Salaries	3,691,106	36,030	--	3,727,136
Employee benefits	1,356,511	2,756	--	1,359,267
Medical professional fees	1,076,816	--	--	1,076,816
Supplies and other	1,564,825	--	--	1,564,825
General services	314,086	--	--	314,086
Administrative services	629,389	88,867	(82,114)	636,142
Insurance	65,085	--	--	65,085
Depreciation and amortization	829,990	--	--	829,990
Total operating expenses	9,527,808	127,653	(82,114)	9,573,347
OPERATING LOSS	(329,890)	(127,653)	82,114	(375,429)
<b>NONOPERATING REVENUE:</b>				
Property taxes	581,722	--	--	581,722
Investment income	143,623	19,043	--	162,666
Noncapital grants and contributions	101,927	76,708	--	178,635
Nonoperating revenue	827,272	95,751	--	923,023
EXCESS REVENUE OVER EXPENSES BEFORE GRANTS AND CONTRIBUTIONS	497,382	(31,902)	82,114	547,594
GRANTS AND CONTRIBUTIONS	84,261	--	(82,114)	2,147
INCREASE (DECREASE) IN NET ASSETS	581,643	(31,902)	--	549,741
NET ASSETS, Beginning of year	16,793,105	316,937	--	17,110,042
NET ASSETS, End of year	\$ 17,374,748	285,035	--	17,659,783



# Audubon County Memorial Hospital

## Exhibit 3

### Patient Service Revenue For the Years Ended June 30, 2011 and 2010

	2011				2010			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
<b>DAILY PATIENT SERVICES:</b>								
Medical, surgical and obstetrics	\$ 295,466	206,237	2,614	504,317	219,332	132,375	219	351,926
Skilled nursing	—	—	158,367	158,367	—	—	172,032	172,032
Coronary care	1,536	—	—	1,536	5,026	—	—	5,026
	<u>297,002</u>	<u>206,237</u>	<u>160,981</u>	<u>664,220</u>	<u>224,358</u>	<u>132,375</u>	<u>172,251</u>	<u>528,984</u>
<b>NURSING SERVICES:</b>								
Emergency	7,110	701,935	806	709,851	14,718	635,835	945	651,498
Operating room	29,370	1,098,707	3,271	1,131,348	43,901	1,036,943	1,251	1,082,095
Recovery room	2,579	103,382	516	106,477	3,856	95,669	241	99,766
	<u>39,059</u>	<u>1,904,024</u>	<u>4,593</u>	<u>1,947,676</u>	<u>62,475</u>	<u>1,768,447</u>	<u>2,437</u>	<u>1,833,359</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Anesthesiology	12,632	392,675	3,400	408,707	25,874	334,885	1,043	361,802
Radiology	161,907	2,566,524	23,119	2,751,550	154,412	2,784,837	26,956	2,966,205
Blood service	11,280	42,878	6,959	61,117	10,692	37,485	3,387	51,564
Laboratory	127,114	1,796,930	43,449	1,967,493	116,095	1,670,532	53,609	1,840,236
Intravenous therapy	11,890	33,210	2,123	47,223	12,313	26,795	7,205	46,313
Respiratory therapy	17,272	30,072	8,628	55,972	11,117	23,362	8,886	43,365
Physical therapy	18,500	270,525	33,980	323,005	9,331	255,152	37,575	302,058
Speech therapy	1,917	897	995	3,809	2,154	6,480	3,135	11,769
Occupational therapy	8,952	23,538	41,681	74,171	1,236	34,636	35,420	71,292
Electrocardiology	22,361	95,912	725	118,998	15,512	88,182	1,490	105,184
Cardiology	—	116,614	—	116,614	—	82,177	—	82,177
Cardiac Rehabilitation	—	20,154	—	20,154	—	14,534	—	14,534
Electroencephalography	—	—	—	—	—	2,977	—	2,977
Medical and surgical supplies	72,492	471,533	31,758	575,783	91,253	414,432	33,832	539,517
Pharmacy	181,331	1,461,562	96,486	1,739,369	165,884	1,093,541	119,943	1,379,368
Sleep study	—	102,360	—	102,360	—	63,618	—	63,618
Clinic	1,605	141,954	270	143,829	944	94,250	4,521	99,715
Extra Medical Clinic	—	383,438	—	383,438	—	322,321	—	322,321
Psychiatry	177	27,354	284	27,815	—	1,137	—	1,137
Audubon Family Health Care Clinic	—	81,026	—	81,026	—	—	—	—
Dietary	—	770	—	770	—	527	—	527
	<u>649,430</u>	<u>8,059,916</u>	<u>293,857</u>	<u>9,003,203</u>	<u>616,817</u>	<u>7,351,860</u>	<u>337,002</u>	<u>8,305,679</u>
	<u>985,491</u>	<u>10,170,177</u>	<u>459,431</u>	<u>11,615,099</u>	<u>903,650</u>	<u>9,252,682</u>	<u>511,690</u>	<u>10,668,022</u>
<b>GROSS PATIENT SERVICE REVENUE</b>	<b>\$</b>							
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(2,197,576)				(1,657,119)
Charity care services and other discounts, based on charges forgone				(60,483)				(22,468)
<b>NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT</b>				<u>9,357,040</u>				<u>8,988,435</u>
<b>PROVISION FOR BAD DEBT</b>				(266,785)				(283,031)
<b>NET PATIENT SERVICE REVENUE</b>				<u>9,090,255</u>				<u>8,705,404</u>

**Audubon County Memorial Hospital****Exhibit 4****Other Operating Revenue  
For the Years Ended June 30, 2011 and 2010**

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	<u>2011</u>	<u>2010</u>
<b>Other Revenues</b>		
Cafeteria Meals	\$ 20,030	19,296
Space rental	25,425	33,675
Grants	14,949	26,871
Loss on sale of capital assets	(15,632)	(7,012)
Other	<u>62,891</u>	<u>59,198</u>
	\$ <u>107,663</u>	<u>132,028</u>

# Audubon County Memorial Hospital

## Exhibit 5

### Departmental Expenses For the Years Ended June 30, 2011 and 2010

	2011			2010		
	Salaries and Wages	Other	Total	Salaries and Wages	Other	Total
<b>NURSING SERVICES:</b>						
Nursing Administration	70,987	7,833	78,820	68,439	8,494	76,933
Medical and surgical	824,098	31,047	855,145	752,741	29,301	782,042
Operating room	85,213	127,865	213,078	91,788	234,491	326,279
Emergency service	410,312	101,092	511,404	387,178	106,379	493,557
	1,390,610	267,837	1,658,447	1,300,146	378,665	1,678,811
<b>OTHER PROFESSIONAL SERVICES:</b>						
Laboratory	232,289	337,319	569,608	233,906	305,193	539,099
Central Supply	5,733	311,020	316,753	—	270,652	270,652
Intravenous therapy	—	2,460	2,460	—	2,322	2,322
Electrocardiology	3,657	7,380	11,037	3,211	7,578	10,789
Electroencephalography	—	—	—	—	1,500	1,500
Cardiac rehabilitation	7,269	790	8,059	5,962	2,059	8,021
Cardiology	—	61,724	61,724	—	3,417	3,417
Radiology	195,777	708,335	904,112	189,160	743,647	932,807
Pharmacy	138,860	525,197	664,057	133,298	451,295	584,593
Anesthesiology	—	203,310	203,310	—	152,669	152,669
Respiratory therapy	36,064	3,261	39,325	33,709	6,481	40,190
Physical therapy	157,522	14,515	172,037	123,249	12,837	136,086
Speech therapy	—	1,983	1,983	—	8,127	8,127
Occupational therapy	—	16,092	16,092	—	18,633	18,633
Sleep study	—	36,900	36,900	—	25,750	25,750
Specialty clinics	148,773	6,508	155,281	133,883	5,788	139,671
Extra Medical Clinic	270,092	42,766	312,858	311,787	71,674	383,461
Medical records	146,608	52,402	199,010	128,084	53,602	181,686
Psychiatry	6,409	—	6,409	131	—	131
Aud Family Health Care Clinic	37,591	37,475	75,066	—	—	—
	1,386,644	2,369,437	3,756,081	1,296,380	2,143,224	3,439,604
<b>GENERAL SERVICES:</b>						
Plant operation and maintenance	130,304	194,107	324,411	119,757	173,115	292,872
Dietary	126,100	84,220	210,320	126,946	79,274	206,220
Housekeeping	127,587	24,127	151,714	121,041	21,183	142,224
Laundry	20,800	11,632	32,432	21,854	10,995	32,849
	404,791	314,086	718,877	389,598	284,567	674,165
<b>ADMINISTRATIVE SERVICES</b>	545,091	640,509	1,185,600	482,882	581,968	1,064,850
<b>NONDEPARTMENTAL:</b>						
Employee benefits	—	1,359,267	1,359,267	—	1,309,028	1,309,028
Depreciation and amortization	—	829,990	829,990	—	827,389	827,389
Insurance	—	65,085	65,085	—	65,459	65,459
	—	2,254,342	2,254,342	—	2,201,876	2,201,876
<b>TOTAL EXPENSES</b>	3,727,136	5,846,211	9,573,347	3,469,006	5,590,300	9,059,306

**Audubon County Memorial Hospital**

**Exhibit 6**

**Patient Receivables and Allowance for Doubtful Accounts  
For the Years Ended June 30, 2011 and 2010**

ANALYSIS OF AGING:

Days Since Discharge	2011		2010	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 941,111	58 %	756,145	52 %
31 - 60	399,314	25	318,424	22
61 - 90	111,582	7	136,966	9
91 - 120	56,584	3	71,156	5
121 and over	117,994	7	184,979	13
	<u>1,626,585</u>	<u>100 %</u>	<u>1,467,670</u>	<u>100 %</u>
Less:				
Allowance for doubtful accounts	(217,309)		(240,000)	
Allowance for contractual adjustments	<u>(246,824)</u>		<u>(193,621)</u>	
	<u>\$ 1,162,452</u>		<u>1,034,049</u>	

	2011	2010
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 240,000	143,271
Provision of uncollectible accounts	266,785	283,031
Recoveries of accounts previously written off	337,598	281,911
Accounts written off	<u>(627,074)</u>	<u>(468,213)</u>
Balance, end of year	<u>\$ 217,309</u>	<u>240,000</u>

**Audubon County Memorial Hospital****Exhibit 7****Inventory/Prepaid Expenses  
For the Years Ended June 30, 2011 and 2010**

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	<u>2011</u>	<u>2010</u>
INVENTORY:		
General stores	137,794	140,447
Pharmacy	142,287	128,160
Laboratory	<u>20,236</u>	<u>19,292</u>
	<u>\$ 300,317</u>	<u>287,899</u>
 PREPAID EXPENSES:		
Insurance	\$ 113,004	25,688
Service contracts	76,565	54,075
Other	<u>10,009</u>	<u>10,469</u>
	<u>\$ 199,578</u>	<u>90,232</u>

**Audubon County Memorial Hospital****Exhibit 8****Financial and Statistical Highlights  
For the Years Ended June 30, 2011 and 2010**

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	<u>2011</u>	<u>2010</u>
Patient Days		
Acute	492	419
Swing-bed	<u>378</u>	<u>435</u>
	<u>870</u>	<u>854</u>
Admissions (Acute)	145	134
Discharges (Acute)	145	134
Average Length of Stay in Days (Acute)	3.4	3.1
Beds	25	25
Occupancy percentage (Acute)	5.39%	4.59%
Emergency room visits	1,254	1,203
Specialty clinic visits	4,627	3,686
Number of employees - full-time equivalents	84.0	80.8



**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance with  
Government Auditing Standards**

To the Board of Trustees  
Audubon County Memorial Hospital  
Audubon, Iowa:

We have audited the financial statements of Audubon County Memorial Hospital (Hospital) as of and for the years ended June 30, 2011, and have issued our report thereon, dated October 26, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item II-A-11, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

*Compliance and Other Matters*

As part of obtaining reasonable assurance that the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Hospital and other parties to who the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Spim Johnson, LLP*

Omaha, Nebraska,  
October 26, 2011.



# Audubon County Memorial Hospital

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2011

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### Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

### Part II: Findings Related to the Financial Statements

#### II-A-11

##### ***Significant Deficiencies in Internal Control over Financial Reporting:***

**Segregation of Duties:** One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. Due to a limited number of administrative personnel, a lack of segregation of duties exists.

**Recommendation:** Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist. We recommend the Hospital continue to monitor and improve its segregation of duties.

**Response:** Management is aware of this deficiency in internal control and believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties.

**Conclusion:** Response accepted.

##### ***Instances of Non-Compliance:***

No matters were reported.

### Part III: Other Findings Related to Required Statutory Reporting

#### III-A-11

**Official Depositories:** A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2011.

#### III-B-11

**Certified Budget:** Hospital disbursements during the year ended June 30, 2011 did not exceed amounts budgeted

#### III-C-11

**Questionable Expenditure:** We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

#### III-D-11

**Travel Expense:** No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

## Audubon County Memorial Hospital

### Schedule of Findings and Questioned Costs For the Year Ended June 30, 2011

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#### III-E-11

Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.9A(2)(a) of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said Hospital to \$1,500 without publicly invited and opened written competitive bids.

#### III-F-11

Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

#### III-G-11

Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

#### III-H-11

Publication of Bills Allowed and Salaries: Chapter 347.13(11) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

## **Audubon County Memorial Hospital**

### **Audit Staff For the Year Ended June 30, 2011**

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#### **This audit was performed by:**

Roger E. Thompson, FHFMA, CPA, Partner

Marcus P. Goldenstein, In-Charge

Eric J. Vrba, Staff Auditor

J. Alex Morton, Staff Auditor

